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SUBJECT: SERBIAN POWER STILL A TURNOFF FOR KOSOVO

SUMMARY

**¶1.** (U) Econoffs met with Assistant Minister of Energy Aleksandar Vlajcic and Head of the International Cooperation Unit Miroslav Kukobat at the Ministry of Energy on March 1 to discuss the recent energy crisis in Kosovo and the problems associated with Serbia's offer to export electricity. explained that the Serbian offer was "unconditional" because, as a donation for a humanitarian crisis, it should benefit those experiencing the greatest electrical outages, but he acknowledged that EPS did request that the power be targeted to certain areas. Kukobat also discussed Serbia's goals in regards to energy for the upcoming Kosovo negotiations. This discussion usefully summarizes the Serbian view of the Kosovo power supply issue. END SUMMARY

RECENT ENERGY CRISIS HIGHLIGHTS EXISTING PROBLEMS

**¶2.** (U) Since June 1999, state-owned Electric Power Industry of Serbia (EPS) has been unable to manage its facilities in Kosovo; these facilities are under the management of UNMIK and the Kosovo Energy Corporation (KEK). Customers, for a variety of reasons, are not paying their electricity bills to KEK. The collection rate is around 30 percent, and 90 percent of that is coming from international organizations situated in Kosovo. Recognizing poor collection rates as one of the main causes of the energy crisis in Kosovo, KEK introduced the "ABC program" in December 2005 in order to reward neighborhoods that pay their electricity bills. Under the program, areas that pay their bills would receive a more reliable supply of electricity. Non-paying areas would receive limited amounts of electricity as available.

**¶3.** (U) The controversy peaked at the beginning of 2006 when the president of the Coordination Center for Kosovo (CCK) in Belgrade, Dr. Sanda Raskovic-Ivic, accused KEK and UNMIK of distributing electricity on an ethnic basis, with Kosovar Serbs experiencing the longest blackouts. On the other hand, Joachim Ruecker, Deputy Special Representative of the Secretary General (DSRSG) of the United Nations Mission in

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Kosovo, accused Serbia's transmission system and market operator, EMS, which is controlled by EPS, of non-cooperation in providing transit for electricity from neighboring countries for Kosovo.

**¶4.** (U) Kosovo's energy problems are longstanding. Issues include poor collection rates and Kosovo's low generating capacity. The international community has provided EUR 1 billion to improve the energy system in Kosovo, but problems persist. After 1999, some 7,500 Serbs lost their jobs in the power company. Currently, power plants are generating only 500 MW, compared to a total installed capacity of 1,500 MW in Kosovo, according to EPS.

**¶5.** (U) According to Assistant Energy Minister Vlajcic, this problem was recognized by the British company formerly engaged by UNMIK to operate generating plants there. The company had offered jobs to former Serbian employees, but it could not guarantee their safety. After the British pulled out, Irish company ESBI was engaged by UNMIK, but believes that only minor improvements were made.

**¶6.** (U) In regards to KEK's accusation of non-cooperation by EMS in getting electricity through Serbia, Vlajcic attributed the problem to pre-existing contracts. The transit of electricity from other countries is planned annually. In the event of a crisis, such as a lack of electricity due to cold weather, KEK would not be able to draw a large amount of electricity from other countries because the transmission capacity has already been reserved. However, some 300 MW of the EMS transmission capacity is always reserved for KEK, and UNMIK need only notify EMS in a timely manner about KEK's needs. Vlajcic says EPS regularly conveys power for KEK/UNMIK on a commercial basis.

UNCONDITIONAL DONATION OR CONDITIONAL OFFER?

**¶7.** (U) The GOS offered various solutions for what it called a "humanitarian catastrophe" in Kosovo. According to Vlajcic, in 2005 it offered to pay some debts and future electricity bills for the Serbian population. In addition, it offered to dispatch electricity in advance for Kosovo, with repayment to

EPS later as collection improved. Since the electrical system previously was part of EPS' system, EPS workers from Kosovo would know how to maintain it, opening the possibility of re-employing Serbian workers, he argued. Nevertheless, Vlajcic said that UNMIK and KEK rejected these offers.

¶8. (U) At the beginning of 2006, the same "unconditional" offer to provide 50 million KWh daily for the most vulnerable areas (meaning those primarily inhabited by Serbs) was still valid. Only after the Sitnica River flooded key power plants in Kosovo in late February and rendered some generating units inoperable, UNMIK accepted the GOS offer to deliver 50 million KWh per day free of charge. Taking into consideration the needs of the Serbian market, the offer was valid from February 24 until March 24.

¶9. (U) Radomir Naumov, Minister of Energy and Mining, spoke with Ruecker on February 2 about the GoS's January 27 offer of "humanitarian aid", but Ruecker rejected it and insisted that the Kosovar Serbs sign contracts with KEK. After the flooding, however, Ruecker accepted the offer on February 24. However, not a single KWh was dispatched to Kosovo. Vlajcic contended that, because the situation is a humanitarian crisis, Serbia should be able to control how its "donation" of electricity is used, as would any other donor. The GOS insisted that UNMIK guarantee that electricity would be sent to the most vulnerable areas. Even though such areas are primarily Serbian, the GOS asserted that Albanians in such areas would benefit, as well.

¶10. (U) However, UNMIK would accept only an unconditional offer, without providing a guarantee as to where the electricity would be used. UNMIK insisted on a commercial solution that would require Serbs in Kosovo to sign commercial contracts with KEK and apply for subsidies or other forms of relief. For Serbs in Kosovo, that solution was not acceptable for political and economic reasons, Vlajcic said. Signing a contract with KEK would mean that they were accepting KEK as the only legal supplier of electricity in Kosovo, Vlajcic said.

#### SERBIAN GOALS FOR KOSOVO NEGOTIATIONS IN REGARDS TO ENERGY

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¶11. (SBU) Miroslav Kukobat informed Econ FSN on March 20 that he was named Serbia's chief negotiator for energy issues in the Kosovo talks. Kukobat said that the GOS will insist on stabilization of the system and supply for all consumers in Kosovo. EPS has offered to pay for electricity to the Serbs there while these issues are being resolved. Specifically, the GOS will demand an uninterrupted (24 hours/day) 70 MW supply of electricity for Serb enclaves during the winter months. For reasons mentioned above, EMS still considers the capacities in Kosovo as a part of its own system and therefore owned by Serbia. In addition, Serbia paid 135 million dinars (about USD 1.9 million) in 2005 to international financial institutions to service loans to EPS companies in Kosovo. Kukobat indicated the Serbia was not inclined to push its previous proposal for a separate, Serb-controlled power distributor in Northern Kosovo.

¶12. (SBU) The GOS will also demand that a solution be found for the 7,500 former EPS workers. Some 6,000 of these workers are still on the EPS payroll. Meaningful employment should be found for these workers, with guarantees of their safety, Kukobat said.

¶13. comment. EPS managers make the point the Kosovo grid was designed and built as an integral part of the Serbian transmission network; therefore, the integrity of the Kosovo system has a direct impact on its operations through many interconnection points. They also are well aware of the potential for exploiting Kosovo's considerable coal deposits for power generation and export. At some point, Serbian negotiators may begin to focus on the conditions that would be necessary to facilitate EPS's access to the Kosovo market, regardless of the outcome of status talks. end comment

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